

## ANALYSIS BY THE LEGISLATIVE ANALYST

### BACKGROUND

Public education in California consists of two distinct systems. One system includes local school districts that provide elementary and secondary (kindergarten through 12th grade, or “K–12”) education to about 6.1 million pupils. The other system (commonly referred to as “higher education”) includes local community colleges, the California State University (CSU), and the University of California (UC). The three segments of higher education provide education programs beyond the 12th grade to about 2.3 million students.

#### K–12 Schools

**School Facilities Funding.** The K–12 schools receive funding for construction and renovation of facilities from two main sources—the state and local general obligation bonds.

- **State Funding.** The state, through the School Facility Program (SFP), provides money for school districts to buy land and to construct, renovate, and modernize K–12 school buildings. Districts receive funding for construction and renovation based on the number of pupils who meet the eligibility criteria of the program. The cost of school construction projects is shared between the state and local school districts. The state pays 50 percent of the cost of new construction projects and 60 percent of the cost for approved modernization projects. (Local matches are not necessary in so-called “hardship” cases.) The state has funded the SFP by issuing general obligation bonds. Over the past decade, voters have approved a total of \$11.5 billion in state bonds for K–12 school construction. About \$550 million of these funds remain available for expenditure.
- **Local General Obligation Bonds.** School districts are authorized to sell general obligation bonds to finance school construction projects with the approval of 55 percent of the voters in the district. These bonds are paid off by taxes on real property located within the district. Over the last ten years, school districts have received voter approval to issue more than \$23 billion of general obligation bonds. Although school facilities have been funded primarily from state and local general obligation bonds, school districts also receive significant funds from:
  - **Developer Fees.** State law authorizes local governments to impose developer fees on new construction. These fees are levied on new residential, commercial, and industrial developments. Statewide, school districts report having received an

average of over \$300 million a year in developer fees over the last ten years.

- **Special Local Bonds (Known as “Mello-Roos” Bonds).** School districts may form special districts in order to sell bonds for school construction projects. (These special districts generally do not encompass the entire school district.) The bonds, which require two-thirds voter approval, are paid off by charges assessed to property owners in the special district. Statewide, school districts have received on average about \$150 million a year in special local bond proceeds over the past decade.

**K–12 School Building Needs.** Under the SFP, K–12 school districts must demonstrate the need for new or modernized facilities. Through May 2002, the districts have identified a need to construct new schools to house 1.2 million pupils and modernize schools for an additional 1.2 million pupils. We estimate the state cost to address all of these needs to be roughly \$20 billion.

#### Higher Education

California’s system of public higher education includes 140 campuses in the three segments listed below, serving about 2.3 million students:

- The California Community Colleges provide instruction to 1.7 million students at 108 campuses operated by 72 locally governed districts throughout the state. The community colleges grant associate degrees and also offer a variety of vocational skill courses.
- The CSU system has 23 campuses, with an enrollment of about 395,000 students. The system grants bachelor and master degrees, and a small number of joint doctoral degrees with UC.
- The UC has eight general campuses and one health sciences campus with a total enrollment of about 184,000 students. This system offers bachelor, master, and doctoral degrees, and is the primary state-supported agency for research.

Over the past decade, the voters have approved nearly \$4.4 billion in general obligation bonds for capital improvements at public higher education campuses. The state also has provided almost \$1.5 billion in lease revenue bonds for this same purpose.

In addition to these state bonds, the higher education segments have other sources of funding for capital projects.

- **Local General Obligation Bonds.** Community college districts are authorized to sell general

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obligation bonds to finance school construction projects with the approval of 55 percent of the voters in the district. These bonds are paid off by taxes on real property located within the district. Over the last decade, community college districts have received local voter approval to issue about \$5 billion of bonds for construction and renovation of facilities.

- **Gifts and Grants.** The CSU and UC in recent years together have received on average over \$100 million annually in gifts and grants for construction of facilities.
- **UC Research Revenue.** The UC finances the construction of new research facilities by selling bonds and pledging future research revenue for their repayment. Currently, UC uses about \$125 million a year of research revenue to pay off these bonds.

**Higher Education Building Plans.** Each year the institutions of higher education prepare capital outlay plans in which they identify project priorities over the next few years. Higher education capital outlay projects in the most recent plans total \$4.4 billion for the period 2003–04 through 2006–07.

## PROPOSAL

This measure allows the state to issue \$13.05 billion of general obligation bonds for construction and renovation of K–12 school facilities (\$11.4 billion) and higher education facilities (\$1.65 billion). General obligation bonds are backed by the state, meaning that the state is obligated to pay the principal and interest costs on these bonds. General Fund revenues would be used to pay these costs. These revenues come primarily from state income and sales taxes. Figure 1 shows how these bond funds would be allocated to K–12 and higher education.

## K–12 School Facilities

Figure 1 describes generally how the \$11.4 billion for K–12 school projects would be allocated. However, the measure would permit changes in this allocation with the approval of the Legislature and Governor.

**New Construction.** A total of \$6.35 billion would be available to buy land and construct *new* school buildings. Of this amount, \$2.9 billion would be set aside for “backlog” projects—that is, projects for which districts had submitted applications on or before February 1, 2002, but that have not yet been funded. The remaining funds—\$3.45 billion—would be available for new construction projects submitted after February 1, 2002. Districts would be required to pay for

FIGURE 1

PROPOSITION 47  
USES OF BOND FUNDS

(In Millions)	Amount
<b>K–12</b>	
New Construction:	
New projects	\$3,450 <sup>a</sup>
Backlog <sup>b</sup>	2,900
Modernization:	
New projects	1,400
Backlog <sup>b</sup>	1,900
Critically overcrowded schools	1,700
Joint use	50
Subtotal, K–12	(\$11,400 <sup>c</sup> )
<b>Higher Education</b>	
Community Colleges	\$746
California State University	496
University of California	408
Subtotal, Higher Education	(\$1,650)
<b>Total</b>	<b>\$13,050</b>

<sup>a</sup> Up to \$100 million available for charter schools. Up to \$25 million available for reimbursements to homebuyers for fees paid to school districts to fund new facilities, but only in the event Proposition 46 fails.

<sup>b</sup> Projects for which districts had submitted applications on or before February 1, 2002.

<sup>c</sup> Up to \$20 million available for energy conservation projects.

50 percent of costs with local resources. The measure also provides that up to \$100 million of the \$3.45 billion in new construction funds is available for charter school facilities. (Charter schools are public schools that operate independently of many of the requirements of regular public schools.)

**Modernization.** The proposition makes \$3.3 billion available for the reconstruction or modernization of *existing* school facilities. Of this amount, \$1.9 billion would be available for backlog projects and \$1.4 billion for new proposals. Districts would be required to pay 40 percent of project costs from local resources.

**Critically Overcrowded Schools.** This proposition directs a total of \$1.7 billion to districts with schools which are considered critically overcrowded. These funds would go to schools that have a large number of pupils relative to the size of the school site.

**Joint-Use Projects.** The measure makes a total of \$50 million available to fund joint-use projects. (An example of a joint-use project is a facility constructed for use by both a K–12 school district and a local library district.)

## Higher Education Facilities

The measure includes \$1.65 billion to construct new buildings and related infrastructure, alter existing buildings, and purchase equipment for use in these buildings for California’s public higher education

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systems. The Governor and the Legislature would select the specific projects to be funded by the bond monies.

**Related Bond Funding.** The legislation which placed this proposition on the ballot provides \$651.3 million in lease revenue bonds to fund specific projects. Lease revenue bonds are similar to state general obligation bonds except they do not require voter approval and are not backed by the full faith and credit of the state. This would fund \$279 million for UC (7 projects), \$191.3 million for CSU (4 projects), \$170.5 million for the community colleges (11 projects), and \$10.5 million for the California State Library (1 project).

### Future Education Bond Act

The legislation which placed this proposition on the ballot authorizes a \$12.3 billion bond measure to be placed on the 2004 primary election ballot. (If the voters do not approve this measure, the same bond

issue would be placed on the November 2004 ballot.) The bond measure would provide:

- \$10 billion for K–12 school facilities (with roughly half for new construction and a fourth each for modernization and critically overcrowded schools).
- \$2.3 billion for higher education (with \$920 million for community colleges and \$690 million each for UC and CSU).

### FISCAL EFFECT

The cost of these bonds would depend on their interest rates and the time period over which they are repaid. If the \$13.05 billion in bonds authorized by this proposition are sold at an interest rate of 5.25 percent (the current rate for this type of bond) and repaid over 30 years, the cost over the period would be about \$26.2 billion to pay off both the principal (\$13.05 billion) and interest (\$13.15 billion). The average payment for principal and interest would be about \$873 million per year.